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UNCLAS SECTION 01 OF 03 ASHGABAT 000997

SIPDIS

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STATE FOR SCA/CEN (PERRY)

E.O. 12958: N/A
TAGS: EPET ECON PREL TX
SUBJECT: TURKMENISTAN'S OIL CHIEF UPBEAT ON OIL AND GAS
SECTOR ACTIVITIES

REF: A. 1) ASHGABAT 905

¶B. 2) ASHGABAT 922
¶C. 3) ASHGABAT 957

Summary

¶1. (SBU) Citing Turkmenistan's estimated reserves of 45 billion metric tons of oil equivalent, Garyagdy Tashliyev, chairman of Turkmenistan's state oil concern, advised emboffs September 13 that Turkmenistan would avoid the refining, sale and storage "mistakes" that previously afflicted the sector. Plans to increase refined product storage capacity, which augment recent pipeline additions in western Balkan Welayat (province), are designed to maximize revenues from refined product sales by allowing Turkmenistan to manage the release of product into the market. Another natural gas pipeline could be built along the shores of the Caspian if Russia guarantees demand at 100 billion cubic meters per year. Additional foreign investment in offshore oil production could use idle refining capacity at Turkmenistan's two refineries. End summary.

Bypassing the Ministry of Oil and Gas

¶2. (U) Garyagdy Tashliyev, chairman of Turkmenistan's state oil company, Turkmennebit, met emboffs for an hour at his Balkanabat headquarters September 13 for a discussion of oil and natural gas developments in Turkmenistan. Tashliyev confirmed that Turkmennebit bypassed the Ministry of Oil and Gas to report directly to the Cabinet of Ministers. In addition to covering oil production across the country, Tashliyev is responsible for natural gas production in western Balkan Welayat (province). (Note: The state natural gas concern is based in Ashgabat, and handles natural gas production elsewhere in the country. End Note.)

Crude Numbers

¶3. (U) Tashliyev estimated that Turkmenistan's oil and gas reserves amounted to 45 billion metric tons of oil equivalent, but noted that more exact data would be provided at the October 25 meeting of the Halk Maslahaty. (Note: The Halk Maslahaty is Turkmenistan's supreme legislative representative body. End Note.) He advised emboffs that Turkmennebit did not export any of its crude oil, which instead was directed to Turkmenistan's two refineries. With

an overall 12 million metric ton annual refining capacity at the two refineries, Tashliyev noted that Turkmennebit only provided 7 million metric tons to the Turkmenbashy refinery and 700,000 metric tons to the Seydi facility.

Cutting Out the Azeri Middlemen?

¶4. (SBU) According to Tashliyev, refined products are exported largely to Russia, Iran and "via Baku." He added that Baku had become a problem as its terminals were "held by one hand," and anticipated that Azeri tankers would soon be barred from various ports in the Caspian Sea due to the tankers' poor physical conditions. Tashliyev did not suggest alternatives to Baku facilities or Azeri tankers, and lacked knowledge of the difference between single hull and double hull tankers. However, Tashliyev proudly noted Turkmenistan's plans to expand its tanker fleet beyond its one existing tanker.

Avoiding an Oil Slick

¶5. (SBU) Blaming "poor marketing," Tashliyev vowed that "mistakes" previously highlighted by President Niyazov in the refining, sale and storage of petroleum products would not be repeated. Shortcomings in storage capacity forced the sale of refined products at lower-than-desired prices, and also hampered refinery operations. In order to maximize higher profit margins for refined products, Tashliyev noted plans to construct additional storage facilities so the government "could hold rather than sell" refined products in the future.

¶6. (U) Along with increased storage capacity, Tashliyev voiced optimism that off-loading capacity for refined product at Turkmenbashy's port facilities could be doubled by reducing the transaction time from the sale to loading of refined products from the current six-month average to two or three months. He expressed passing interest in the export of refined products to Afghanistan, but intimated that long transit times and congested rail routes made significant sales unlikely.

The Missing Links

¶7. (U) In addition to increased storage capacity, Tashliyev described recent and potential pipeline developments. He said 170 kilometers of new pipeline, varying from 426 to 508 millimeters in diameter, had been dedicated two months ago to transport crude oil from collectors located at Kotur Depe, Vyshka and Gumdag in Balkan Welayat. According to Tashliyev, the westernmost, Caspian line of the Central Asia Center (CAC) network in Turkmenistan, CAC III, carries an annual equivalent of approximately 3.7 billion cubic meters (bcm) of natural gas. He reiterated suggestions that a 30 bcm pipeline might be built parallel to the CAC III line, but linked such plans to increased, guaranteed purchases of natural gas from Turkmenistan.

Chewing the Fat on Natural Gas

¶8. (U) Tashliyev reasoned one possible option to feed a 30 bcm pipeline along the Caspian would be Russia's expressed desire to purchase annually 100 bcm of natural gas instead of the recently agreed annual 50 bcm figure (see ref C). He confirmed plans by the Malaysian firm Petronas to build a natural gas treatment and LPG tanker terminal at Kianli, north of Turkmenbashy city (ref A). Tashliyev said Petronas planned to produce 5 bcm of natural gas a year by 2009 or
¶2010. He questioned where Petronas would send all its production, but also held open the possibility that excess

Petronas natural gas production could be absorbed by the pipeline network supplying Russia.

Turkmen Waters Warming for Foreign Investment?

¶9. (U) Tashliyev, drawing emboffs' attention to a large map of Turkmenistan's oil and gas deposits above his conference table, said there were many offshore opportunities for foreign firms in Turkmenistan's Caspian waters. He expressed optimism regarding lucrative offshore blocks running parallel to existing proven deposits onshore from the Iranian border north towards the Celeken/Hazar peninsula and offshore from Celeken towards Azeri fields arcing to Baku. Tashliyev said that Turkmenistan wanted foreign firms to develop fields within 10-15 kilometers of the shore via production sharing agreements or service contracts.

¶10. (SBU) In response to emboff, Tashliyev said only two "small" Chinese firms were active in Turkmenistan and were working in the Gumdag and Kotur Depe fields. He added that Chinese firms "were more than welcome on the right bank of the Amu Darya" and in the Yoloten field near Mary. (Note: Embassy plans to visit the right bank of the Amu Darya later this month. End Note.) Among exhibitors at Ashgabat's oil and gas exhibition, which Oil and Gas Minister Gurbanmyrat Atayev opened September 19, at least three Chinese and two Iranian firms had stalls alongside larger exhibits by Malaysia's Petronas, Russia's Lukoil and Gazprom, and Ukraine's Naftogaz.

Comment

¶11. (SBU) The idle capacity of Turkmenistan's two refineries likely increases the pressure that Turkmennebit and the separate state exploration concern face to raise domestic crude oil production. Even though foreign crude oil producers in Turkmenistan export their product, Tashliyev's encouragement of foreign investment in oil and gas activities offshore could generate more crude input for Turkmenistan's refineries. Existing production sharing agreements with foreign firms cede roughly half of production to

Turkmenistan, ostensibly for refining domestically. This method reduces Turkmenistan's capital expenditure to zero to bring new production on line, while generating profits from sales of the refined products.

¶12. (SBU) Plans to construct additional storage for refined petroleum products shed new light on the recent natural gas deal with Gazprom. Concerns about previous mistakes with pricing and storage indicate Turkmenistan, understandably, is trying to maximize the value of its refined petroleum products. However, Niyazov's insistence on $100 per thousand cubic meters of natural gas in the Gazprom agreement reflected a pricing decision well below market rates. While current limitations on natural gas export routes restrict Turkmenistan's options vis-a-vis the more competitive marketplace for refined petroleum products in the Caspian Sea basin, Turkmenistan is still selling its natural gas at a substantial discount to Gazprom. The pricing concession, however, generates speculation regarding undisclosed components of the Gazprom deal. End comment.

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